

**Teachers Insurance and Annuity Association
College Retirement Equities Fund**

730 Third Avenue/New York, NY 10017 (212)490-9000

March 14, 1986

Ormesa Geothermal
500 Dermody Way
Sparks, Nevada 89431

Attention: Mr. Hezy Ram

Re: Ormesa Geothermal ("the Company")
\$22,491,450 10.21% Guaranteed Senior Secured Notes due 2006
("Guaranteed Senior Secured Notes")
\$ 2,499,050 14.50% Senior Secured Notes due 2006 ("Senior Secured Notes")

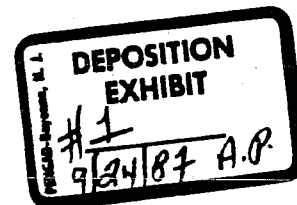
Gentlemen:

We are pleased to confirm that our Finance Committee has authorized the acquisition by Teachers Insurance and Annuity Association of America ("TIAA") of the captioned securities.

This authorization is contingent upon the preparation, execution and delivery of documents, in form and substance satisfactory to TIAA and to TIAA's special counsel, substantially in accordance with the Summary of Proposed Terms attached hereto; and is further contingent upon the absence of any material, adverse change in the business or financial condition or prospects of the Company. This authorization will expire if the necessary documents, as aforesaid, have not been executed prior to April 30, 1986 unless TIAA has extended said date in writing.

Other provisions: The documents shall contain such representations and warranties, closing conditions, other covenants, events of default and remedies, requirements for delivery of financial statements, and other information and provisions as are usual and customary in this type of transaction and as we and our special counsel may deem reasonably necessary to accomplish this transaction.

Special Counsel and Local Counsel: To be selected by the lenders.



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Expenses: Ormesa Geothermal agrees to pay or at TIAA's option, to reimburse TIAA for all reasonable out-of-pocket expenses incurred in connection with this transaction including, without limitation, fees and expenses of our special counsel and local counsel, fees and expenses of our special project consultant engaged to monitor the completion and acceptance of the Project, printing costs, and broker's or finder's fees or commissions of E.F. Hutton and any other broker engaged by or on behalf of the Company whether or not this transaction is consummated.

If the foregoing properly sets forth your understanding of this transaction, please evidence acceptance of the conditions of this letter by having it executed below by duly authorized officers of Ormesa Geothermal and by returning one executed counterpart to TIAA, attention: Securities Division.

Upon receipt by TIAA of an accepted counterpart of this letter, our agreement to purchase from you and your agreement to issue, sell and deliver to us, or at our request to our wholly-owned subsidiary, the captioned securities, shall become a binding agreement between us. Failure to receive such acceptance by March 28, 1986 will constitute termination of this authorization.

Very truly yours,

LSA
TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

BY *Loren S. Archibald*
TITLE
Loren S. Archibald
Investment Officer

Accepted and agreed to:

ORMESA GEOTHERMAL

BY ORMESA GEOTHERMAL INC.

By *Daniel H. Hurlbut*
TITLE
Vice President

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SUMMARY OF PROPOSED TERMS
GUARANTEED SENIOR SECURED NOTES

<u>Amount</u>	\$44,982,900	<u>TIAA</u>	\$22,491,450
<u>Rate</u>	10.21%, payable monthly	<u>Term</u>	20 years
<u>Takedown</u>	October, 1986	<u>Average Life</u>	13.5 years

Interest Rate Reset

The initial coupon of 10.21% will remain in place for twelve years, at which point the coupons on the Guaranteed Notes and Non-Guaranteed Notes will be readjusted as provided below. If the previous two-month average of the ten-year Treasury Constant (monthly equivalent) plus 150 basis points is less than 10.636% (monthly), no adjustment will occur on either the Guaranteed Notes or Non-Guaranteed Notes. If such rate exceeds 10.636% (monthly), then the Guaranteed Notes and Non-Guaranteed Notes will be adjusted up, according to a predetermined formula, in order that the weighted average rate of the two issues equal such rate. The adjusted weighted average rate on the Guaranteed Notes and Non-Guaranteed Notes shall not exceed 12.136% (monthly).

Use of Proceeds

Proceeds will be used to refund interim bank debt used during construction of a 30MW (gross) geothermal power plant in the Imperial Valley of California (the "Project").

Security

The Guaranteed Senior Secured Notes will be secured by 1) a first lien on the Project's assets; 2) an assignment of the rights of the geothermal leasehold; 3) an assignment of the Power Purchase Contract with Southern California Edison; and 4) an assignment of all rights and interest in the construction, operating and maintenance, etc., contracts. The Guaranteed Senior Secured Notes and the Non-Guaranteed Senior Secured Notes will share pari passu in the security.

Guaranty

The Guaranteed Senior Secured Notes will be unconditionally guaranteed by the United States Department of Energy, supported by the full faith and credit of the Government of the United States.

Debt Reserve Fund

There shall be established and maintained a debt service reserve fund equal to debt service requirements for six months. Accrued interest on such fund shall be added to the fund until the total amount is equal to debt service requirements for one year. Any amounts paid from the fund shall be restored prior to the distribution of any Project proceeds to the Company.

Working Capital Reserve Fund

There shall be established a working capital reserve fund in a minimum amount of \$1.5 million. The Company may draw upon such working capital reserve funds subsequent to the completion of start-up of the Project, with the consent of DOE, to cover any negative cash flow from the Project.

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Mandatory
Repayment

Repayment of the Notes will be made in a mortgage type paydown of 240 equal monthly installments of principal and interest.

Optional
Prepayment

Non-callable for ten years. If the Company prepays the issue thereafter, it shall be required to prepay both the Guaranteed Notes and Non-Guaranteed Notes in an amount (for the Guaranteed Notes) equal to that required in the Debt Make-Whole Provision below.

Debt Make-Whole
Provision

If the yield to maturity of a specified AA Corporate Bond Index ("AA Rate") is equal to or greater than 10.21% (monthly) then no premium shall be due on the prepayment of the Guaranteed Notes. If such yield is lower than 10.21%, the prepayment penalty shall be calculated as follows: (a) the present value of the remaining payments of principal and interest on the Guaranteed Notes discounted at the AA Rate over (b) the outstanding principal, at par, of the Guaranteed Notes.

Extraordinary
Mandatory
Repayment

Redeemable at par in the event of a material casualty.

Covenants

Other covenants shall be negotiated including, among others, limitations on capital expenditures, limitations on other borrowings senior or pari passu to the Guaranteed Senior Secured Notes and Non-Guaranteed Senior Secured Notes, investments, asset dispositions, cash distributions to the Company and maintenance of well replacement funds.

Other
Closing
Conditions

Certain operating and regulatory requirements as deemed satisfactory to TIAA and its special project consultant shall be met.

Non-Recourse

The Noteholders shall look solely to the assets of the Company and to the Security, the Debt Reserve Fund and, as applicable to the Guaranty described above.

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SUMMARY OF PROPOSED TERMS
SENIOR SECURED NOTES

<u>Amount</u>	\$4,998,100	<u>TIAA</u>	\$2,499,050
<u>Rate</u>	14.50%, payable monthly	<u>Term</u>	20 years
<u>Takedown</u>	October, 1986	<u>Average Life</u>	13.5 years

Interest Rate Reset

The initial coupon of 14.50% will remain in place for twelve years, at which point the coupons on the Guaranteed Notes and Non-Guaranteed Notes will be readjusted as provided below. If the previous two-month average of the ten-year Treasury Constant (monthly equivalent) plus 150 basis points is less than 10.636% (monthly), no adjustment will occur on either the Guaranteed Notes or Non-Guaranteed Notes. If such rate exceeds 10.636% (monthly), then the Guaranteed Notes and Non-Guaranteed Notes will be adjusted up, according to a predetermined formula, in order that the weighted average rate of the two issues equals such rate. The adjusted weighted average rates on the Guaranteed Notes and Non-Guaranteed Notes shall not exceed 12.136% (monthly).

Mandatory Repayment

Repayment of the Notes will be made in a mortgage type paydown of 240 equal monthly installments of principal and interest.

Optional Prepayment

Non-callable for ten years. If the Company prepays the issue thereafter, it shall be required to prepay both the Guaranteed Notes and Non-Guaranteed Notes in an amount (for the Non-Guaranteed Notes) equal to that required in the Debt Make-Whole Provision below.

Debt Make-Whole Provision

If the yield to maturity of a specified AA Corporate Bond Index ("AA Rate") is equal to or greater than 14.50% (monthly), then no premium shall be due on the prepayment of the Non-Guaranteed Notes. If such yield is lower than 14.50%, the prepayment penalty shall be calculated as follows: (a) the present value of the remaining payments of principal and interest on the Non-Guaranteed Notes discounted at the AA Rate over (b) the outstanding principal, at par, of the Non-Guaranteed Notes.

There is no guarantee by the Department of Energy on this issue. All other terms will be identical to those of the Guaranteed Senior Secured Notes.

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